

ARIZONA
MONTHLY FISCAL HIGHLIGHTS
August 2005

Summary

General Fund revenue collections were \$658.3 million in August, which was \$60.5 million above the forecast for the month and 20.7% more than August 2004. Collections for the first 2 months of the fiscal year total \$101.8 million over the budgeted forecast. The forecast comparison is based on projected FY 2006 revenues from the enacted budget.

August collections for the largest revenue categories continued to grow at a high rate. Sales tax revenue was 16.5% above August of last year and individual income tax revenue was up 20.7%, after adjusting for this year's higher withholding rates.

The enacted budget requires any FY 2006 revenues above forecast to be deposited into the Budget Stabilization Fund. The first deposit will not be made until JLBC Staff and the Governor's Office of Strategic Planning and Budgeting (OSPB) report in February 2006 on revenues for the first six months of the fiscal year.

The Finance Advisory Committee (FAC) met on September 15th (see page 4). The FAC is a panel of 16 leading economists that advises the Legislature 3 times a year on the state's economy. This FAC generally had an optimistic view of the economy, but cautioned that the current double digit growth rate was unlikely to continue through 2006. Based on the FAC's input and 3 other models, the largest revenue categories are forecasted to grow 9.1% in FY 2006 and 6.5% in FY 2007.

The August Monthly Fiscal Highlights includes a summary of recent reports submitted to the JLBC, including:

- A budget status report on the Department of Education's Basic State Aid shortfall, which the department has estimated to be \$48 million for FY 2006. The JLBC Staff estimated shortfall for FY 2006 is \$33 million, which is lower due to slightly lower growth rate projections (3.2% versus 3.5%) than ADE.
- A report by the Motor Vehicle Division on customer wait times, which increased 43% in FY 2005, from 15.1 minutes to 21.6 minutes. Wait times increased even though the number of customers decreased 6.1% in FY 2005. The increase in wait times is most likely due to a 16.3% decrease in the number of clerks serving at MVD offices from FY 2003 levels. The budget, however, did not reduce Department of Transportation staffing.

(Continued)

Table of Contents

<u>Page #</u>	<u>Page #</u>
August Revenues.....2	<u>September 1 JLBC Meeting Summary</u>
Recent Economic Indicators4	- AHCCCS – Capitation Rate Change.....10
Finance Advisory Committee Summary4	- DES – DD Rate Increase10
<u>Summary of Recent Agency Reports</u>	- DPS – Public Safety Advisory Commission10
- ADOA – Automated External Defibrillators6	- DOA – Emergency Telecommunications Fund.....11
- AHCCCS – Medicaid Direct Service Claiming Program.....6	- AG – Uncollectible Debts11
- DOC – Inmate Utility Fees.....6	- Arts – Arts Endowment Fund.....11
- ADE – Budget Status Report.....7	<u>September 1 JCCR Meeting Summary</u>
- ADEQ – WQARF.....7	- DOA – Building Renewal Plan11
- OSPB – Federal Funds Central Clearinghouse Study.....7	- DOA – PLTO I Refinancing and Renegotiation12
- DHS – AIDS Drug Assistance Program Expenditures.....8	- DOA – Energy Savings Performance Contract11
- ABOR – Technology/Research Initiative Fund.....8	- DJC – Suicide Prevention Renovations.....11
- DOR – Tobacco Tax Enforcement Revenue Collections8	- ADOT – Building Renewal Allocation Plan11
- Supreme Court – Current/Future Automation Projects9	- ASU – Academic Renovations.....12
- ADOT – MVD Wait Times9	- NAU – Parking Structure12

Summary (Continued)

The JLBC and JCCR met on September 1 (see page 10). The highlights of the agenda included:

- A favorable review by the JLBC of the Arizona Cost Containment System's Acute Care and Long Term Care System capitation rates for FY 2006. The JLBC Staff had estimated that the capitation rate change would create a \$14 million General Fund shortfall in FY 2006. The main component of the increase was the capitation rates for the Arizona Long Term Care System, which increased 9.3% over FY 2006 budgeted levels.
- A favorable review by the JLBC of the Department of Economic Security's implementation plan for a Developmental Disabilities provider rate increase. The Legislature added \$6 million in General Fund monies in FY 2006 in order to raise provider rates to 97.61% of FY 2005 market rates.

During the summer, JLBC Staff has compiled a number of Program Summaries, which provide information on a number of programs and topics of interest across state government. These 2-4 page summaries include a program overview as well as funding and performance measure information and can be found on the JLBC website at <http://www.azleg.state.az.us/jlbc/progsumm.htm>.

Program summary topics include:

- County AHCCCS-Related Payments
- AHCCCS - Payments to Hospitals
- Victims' Rights Program
- DUI Fines, Surcharges and Assessments
- Victim Compensation and Assistance
- ASDB Cooperative Program
- Domestic Violence
- Early Childhood Block Grant
- Gifted Education
- Project Challenge
- Game and Fish – Federal Programs
- Drug Courts
- Natural Resource Conservation Districts
- Medical Student Assistance
- DPS Crime Labs
- School Facilities Board New Construction
- Secretary of State - Help America Vote Act
- Motor Vehicle Division Third Parties
- Oxygenated Fuel Program

AUGUST REVENUES

Sales Tax revenue increased by 16.5% on a year-over-year basis in August and was \$27.1 million above the forecast for the month, based on preliminary collection figures. Year-to-date, collections are \$53.7 million above the forecast. Based on collections through August:

- **Retail** receipts have increased by 17.1%.
- **Contracting** continues to generate strong returns, with year-to-date growth of 26.5%.
- **Utilities** collections are up 11.4%.
- **Use** tax receipts (all of which are retained by the state) have grown by 11.9%.
- **Restaurant and bar** collections are up 12.3%.

Individual Income Tax revenue for August was 26.8% above last August and \$24.9 million above the forecast for the month. Withholding collections grew by a total of 22.6%, or 16.5%

after adjusting for the higher withholding rates implemented in January 2005.

Corporate Income Tax collections were \$23.4 million in August, a 10.2% increase from a year ago. The August results were \$(1.1) million below the forecast for the month. For the fiscal year to date through August, corporate income tax revenue increased 39.0% from last year and was \$5.7 million above the forecast.

The General Fund portion of **Luxury Tax** collections for August was (1.9)% less than August 2004, and \$0.2 million below the forecast for the month.

Among the remaining categories, **Insurance Premium Tax** collections increased 11.4% from a year ago and were \$5.7 million above the forecast.

Table 1

**General Fund Revenues
Compared to Adopted Forecast and FY 2005 Collections**
(\$ in Millions)

	FY 2006 Collections	Difference From Forecast ^{1/}	Difference From FY 2005
August	\$ 658.3	\$ 60.5	\$ 113.0
Year-to-Date	\$ 1,276.4	\$ 101.8	\$ 205.1

^{1/} Enacted FY 2006 budget (May)

State of Arizona

General Fund Revenue: Change from Previous Year and May Forecast

August 2005

	Current Month					FY 2006 YTD (Two Months)				
	Actual August 2005	Change From				Actual August 2005	Change from			
		August 2004		Revised Forecast			August 2004		Revised Forecast	
		Amount	Percent	Amount	Percent		Amount	Percent	Amount	Percent
<u>Taxes</u>										
Sales and Use	\$334,204,902	\$47,212,981	16.5 %	\$27,091,702	8.8 %	\$681,826,231	\$97,080,838	16.6 %	\$53,737,331	8.6 %
Income - Individual	263,699,999	55,692,450	26.8	24,928,199	10.4	487,653,188	99,387,153	25.6	40,559,088	9.1
- Corporate	23,429,772	2,175,793	10.2	(1,144,628)	(4.7)	58,707,797	16,461,445	39.0	5,668,797	10.7
Property	81,675	119,830	--	(918,325)	(91.8)	367,403	(205,107)	(35.8)	(852,597)	(69.9)
Luxury	5,137,183	(100,117)	(1.9)	(212,817)	(4.0)	10,259,881	8,385	0.1	(440,119)	(4.1)
Insurance Premium	43,639,665	4,476,161	11.4	5,719,765	15.1	79,581,493	5,559,785	7.5	2,841,693	3.7
Estate	6,782,948	2,469,082	57.2	5,082,948	299.0	7,608,446	(617,483)	(7.5)	4,208,446	123.8
Other Taxes	48,983	10,065	25.9	(183,017)	(78.9)	111,482	2,825	2.6	(352,518)	(76.0)
Sub-Total Taxes	\$677,025,127	\$112,056,245	19.8 %	\$60,363,827	9.8 %	\$1,326,115,921	\$217,677,841	19.6 %	\$105,370,121	8.6 %
<u>Other Revenue</u>										
Lottery	2,466,200	382,400	18.4	(1,333,800)	(35.1)	2,466,200	(795,000)	(24.4)	(1,333,800)	(35.1)
License, Fees and Permits	2,901,292	477,534	19.7	(157,408)	(5.1)	4,709,565	318,266	7.2	(1,060,235)	(18.4)
Interest	4,206,843	1,564,260	59.2	1,634,643	63.6	3,930,940	1,509,665	62.4	1,459,840	59.1
Sales and Services	5,747,045	2,757,566	92.2	2,510,245	77.6	7,262,464	2,289,887	46.1	1,221,764	20.2
Other Miscellaneous	1,156,939	425,061	58.1	(541,661)	(31.9)	2,463,397	1,004,385	68.8	107,397	4.6
Disproportionate Share	0	0	--	0	--	0	0	--	0	--
Transfers and Reimbursements	204,990	(80,725)	(28.3)	(1,955,010)	(90.5)	325,520	(6,354,327)	(95.1)	(3,994,480)	(92.5)
Sub-Total Other Revenue	16,683,309	5,526,096	49.5 %	157,009	1.0 %	21,158,086	(2,027,124)	(8.7) %	(3,599,514)	(14.5) %
TOTAL BASE REVENUE	\$693,708,436	\$117,582,341	20.4 %	\$60,520,836	9.6 %	\$1,347,274,007	\$215,650,717	19.1 %	\$101,770,607	8.2 %
<u>One-Time Revenue</u>										
Urban Revenue Sharing	(35,435,744)	(4,346,363)	14.0	(2)	0.0	(70,871,488)	(8,692,726)	14.0	(4)	0.0
Judicial Enhancement	0	(270,000)	(100.0)	0	--	0	(1,859,200)	(100.0)	0	--
Sub-Total Transfers In	(35,435,744)	(4,616,363)	15.0 %	(2)	0.0 %	(70,871,488)	(10,551,926)	17.5 %	(4)	0.0 %
TOTAL REVENUE	\$658,272,692	\$112,965,978	20.7 %	\$60,520,834	10.1 %	\$1,276,402,519	\$205,098,791	19.1 %	\$101,770,603	8.7 %

VP% = Percent change from comparable period in prior year

VF% = Variance from forecast

F% = Forecast percent change for the fiscal year.

R% = Average percent change from comparable period in prior year which must be attained over remaining months to realize the forecast for year.

RECENT ECONOMIC INDICATORS

Even before Hurricane Katrina's impact, fuel prices were producing higher inflation. The **U.S. Consumer Price Index (CPI)** climbed another 0.5% in August, the same as in July. Energy costs soared 5.0% in August, which followed a 3.8% increase the prior month. The CPI's 3-month moving average increased 0.3% and was 3.1% higher than a year ago. Excluding food and fuel prices, the increase in the core CPI remained at 2.1% on a year-over-year basis in August.

The Conference Board's **U.S. Consumer Confidence Index** improved to 105.6 in August, a 1.9% gain from July and a 7.0% increase from a year ago. Consumers' assessment of current conditions remained sanguine, and an upbeat assessment of the job market influenced August's positive report.

U.S. semiconductor billings (3-month moving average) declined (1.3)% in July and were running (4.9)% below the level from a year ago. According to the Semiconductor Industry Association, worldwide sales were up 0.3% from the prior month but were virtually flat compared to last year. Although unit sales continued to grow, competition is pushing prices lower and holding revenues in check.

Arizona's labor market posted solid gains in August. **Non-farm employment** increased 4.1% from a year ago, with more than 97,000 jobs added. The construction industry accounted for 23,000 (an 11.9% increase), while the manufacturing sector created 400 jobs. Retail trade, responding to rapid growth in population and housing, has added 21,300 jobs since August 2004. Meanwhile, the state's seasonally adjusted unemployment rate fell from 4.9% to 4.6% in August.

According to the Real Estate Center at Arizona State University, the Greater Phoenix housing market was still very strong but cooled slightly in August. The **single-family median resale price** rose to \$258,700 in August, which was up 45.7% from a year ago but just 1.5% from July. The number of single-family homes sold increased 4.9% from the prior month to 10,700 but declined (5.1)% from August 2004.

The **Arizona Index of Leading Economic Indicators** increased 0.7% in June following two months of declines. Employment, residential building permits, production, new orders, and manufacturing hours worked all made positive contributions.

The **Arizona Business Conditions Index**, derived from a monthly survey of supply chain managers, edged 1.8% higher in August. Production, delivery times, and new orders were among the factors driving the increase.

The **AHCCCS caseload** increased in August. Enrollment was 0.5%, or 4,485, more than July and stood 8.1% above the level from one year ago. **The number of TANF recipients** increased to 98,794 in July, which was 1.5% higher than June and a (13.8)% decline from July 2004.

The **Department of Corrections' inmate population** increased by an average of 78 inmates per month from June through August. The total population increased by 839 inmates from a year ago.

FAC MEETING

At its September 15th meeting, the Finance Advisory Committee (FAC) heard presentations on General Fund revenue collections, the U.S. economy, and Arizona's economy. The FAC is a 16 member panel comprised of leading economists in the state. The panel meets 3 times a year and advises the Legislature on the state economy.

The Committee discussed the continuing importance of the real estate market relative to the strong growth in year-over-year General Fund collections. However, the Committee warned that high rates of growth would only continue for as long as the housing boom lasts. While they did not suggest a specific timeframe, members of the Committee expected the real estate market to slow down within the next 2 years.

The FAC panel members were also asked to provide their FY 2006 – FY 2009 forecasts for the 3 largest revenue categories: sales, individual income and corporate income taxes. The FAC is one of the 4 inputs into the JLBC Staff's 4-sector consensus forecast. The other 3 inputs are:

- The University of Arizona Economic and Business Research (EBR) General Fund baseline model;
- The EBR conservative forecast model; and
- JLBC Staff projections.

Based on the 4-sector consensus, the "Big 3" revenues are forecasted to grow 9.1% in FY 2006 and 6.5% in FY 2007 (see Table 3). In FY 2005, "Big 3" collections were 20.4% greater than collections in FY 2004.

Table 3

4-Sector "Big 3" Consensus Forecast: FY 2006 – FY 2009

	FY 2006	FY 2007	FY 2008	FY 2009
Sales Tax	7.9%	5.4%	4.9%	5.4%
Individual Income Tax	9.5%	7.5%	6.5%	7.1%
Corporate Income Tax	13.2%	7.9%	0.5%	2.0%
Overall Weighted Growth	9.1%	6.5%	5.1%	5.8%

Table 4**RECENT ECONOMIC INDICATORS**

<u>Indicator</u>	<u>Time Period</u>	<u>Current Value</u>	<u>Change From Prior Period</u>	<u>Change From Prior Year</u>
Arizona				
- Unemployment Rate	August	4.6%	(0.3)%	(0.3)%
- Jobs	August	2.46 million	1.5%	4.1%
- Contracting Tax Receipts (3-month average)	Jun-Aug	\$68.3 million	14.7%	28.5%
- Retail Sales Tax Receipts (3-month average)	Jun-Aug	\$153.5 million	4.1%	14.9%
- Residential Building Permits - (3-month moving average)				
Single-unit	May-Jul	7,193	(2.7)%	(5.2)%
Multi-unit	May-Jul	708	(21.4)%	9.4%
- Greater Phoenix Existing Home Sales				
Single-Family	August	10,700	4.9%	(5.1)%
Townhouse/Condominium	August	1,975	3.7%	4.8%
- Greater Phoenix Median Home Sales Price				
Single-Family	August	\$258,700	1.5%	45.7%
Townhouse/Condominium	August	\$159,000	1.8%	39.5%
- Arizona Tourism Barometer	February	100.4	4.7%	2.8%
- Phoenix Sky Harbor Air Passengers	June	3.57 million	0.6%	4.1%
- Arizona Average Natural Gas Price (\$ per thousand cubic feet)	June	\$6.46	(6.1)%	15.2%
- Leading Indicators Index	June	120.2	0.7%	0.7%
- Business Conditions Index (>50 signifies expansion)	August	63.7	1.8%	1.4%
- Consumer Confidence Index	3 rd Quarter 2005	102.8	5.5%	1.5%
- Business Leaders Confidence Index	3 rd Quarter 2005	59.1	(5.9)%	(13.5)%
- Arizona Personal Income	1 st Quarter 2005	\$172.5 billion	1.4%	8.5%
- Arizona Population	July 1, 2004	5.74 million	3.0%	3.0%
- AHCCCS Recipients	August	816,730	0.5%	8.1%
- TANF Recipients	July	98,794	1.5%	(13.8)%
- DOC Inmate Growth (3-month average)	Jun-Aug	32,808	78 inmates	839 inmates
United States				
- Gross Domestic Product (seasonally adjusted annual growth rate)	2 nd Quarter 2005	\$11.1 trillion	3.3%	3.6%
- Consumer Confidence Index	August	105.6	1.9%	7.0%
- Leading Indicators Index	July	138.2	0.1%	0.4%
- U.S. Semiconductor Billings (3-month moving average)	May-Jul	\$3.1 billion	(1.3)%	(4.9)%
- Consumer Price Index (3-month moving average)	Jun-Aug	195.4	0.3%	3.1%

SUMMARY OF RECENT AGENCY REPORTS

Arizona Department of Administration – Final Report on Automated External Defibrillators - A.R.S. § 34-401 requires the placement of an automated external defibrillator (AED) in all new and newly renovated state buildings. An AED is a medical device that can restore a patient's normal heartbeat by applying a brief electric shock. Laws 2001, Chapter 308 appropriated a non-lapsing \$100,000 over the course of two years to install AED in state and local government buildings. The session law charged the Arizona Department of Administration (ADOA) with the installation of the AED and required the department to submit an implementation report by November 2001. The department completed the report on time, but took no action to install the equipment.

Staff brought the matter to the attention of ADOA in a letter dated September 27, 2004. In its response from October 5, 2004, the department stated its intention to create a Grant Review Committee, establish evaluation criteria, distribute information to state and local government agencies, and install the AED, with project completion no later than June 30, 2005. The letter also stated that the Grant Review Committee would provide quarterly reports.

Therefore, ADOA is reporting on the status of the AED project. Overall \$143,442 was spent, \$99,691 from the \$100,000 appropriation, and \$43,751 from a Risk Management Loss Prevention Grant. From the appropriated amount, \$24,442 was spent in conjunction with the loss prevention grant to purchase and distribute defibrillators on the Capitol Mall. A total of 82 defibrillators were purchased at a price of \$1,501 per unit for the defibrillator, and \$279 for the wall mounting unit, \$1,780 per unit. (Table 1 details the distribution of the defibrillators.)

AHCCCS - Report on Medicaid Direct Service Claiming Program - Pursuant to Laws 2005, Chapter 286, the Arizona Health Care Cost Containment System (AHCCCS) is providing its annual report on the Medicaid Direct Service Claiming (DSC) program. This program was previously called the Medicaid in Public Schools (MIPS) program. This program is designed to provide funding for certain medically necessary Title XIX covered services furnished through the public school system special education programs. The report by AHCCCS gives an overview of the DSC program, and also provides information on the services provided, the number of children being served, and the cost of these services.

In FY 2005 the DSC program provided payments for 21.3 million claims. This is an increase of over 300% from FY 2004. AHCCCS reports that this large increase over the prior year is due to the transition period following the start of the new contract cycle last year as well as an increase in the Medicaid and school population. All of these services must be determined "medically necessary" by a health care professional. These children are eligible for nursing services, health aide services (attendant care), occupational therapy, speech therapy, physical therapy, transportation, behavioral

Table 1

<u>Funding Source</u>	<u>Location</u>	<u>Defibrillator Count</u>
Appropriation	Arizona State Lottery Commission	1
Appropriation	Arizona State Hospital	5
Appropriation	Arizona Game and Fish Department	4
Appropriation	Apache County	1
Appropriation	City of Apache Junction	3
Appropriation	City of Bullhead	2
Appropriation	City of Casa Grande	4
Appropriation	City of Goodyear	4
Appropriation	City of Safford	2
Appropriation	Town of Payson	4
Appropriation	Town of Queen Creek	4
Appropriation	Yavapai College	4
Appropriation	Yavapai County	4
Sub-Total		42
Appropriation & Grant	AHCCCS	2
Appropriation & Grant	Arizona Radiation and Regulatory Agency	2
Appropriation & Grant	Arizona State Fair and Exposition	2
Appropriation & Grant	Attorney General	3
Appropriation & Grant	Capitol Center	1
Appropriation & Grant	Capitol Museum	1
Appropriation & Grant	Capitol Police	9
Appropriation & Grant	Department of Administration	2
Appropriation & Grant	Department of Economic Security	3
Appropriation & Grant	Department of Environmental Quality	2
Appropriation & Grant	Department of Health Services	2
Appropriation & Grant	Executive Tower	1
Appropriation & Grant	Governor's Office	1
Appropriation & Grant	Industrial Commission	1
Appropriation & Grant	Office of Administrative Hearings	1
Appropriation & Grant	Risk Management Training Unit	1
Appropriation & Grant	State Land Department	1
Appropriation & Grant	State Parks	2
Appropriation & Grant	Sun State Building	1
Appropriation & Grant	Tucson State Complex	2
Sub-Total		40
Grand Total		82

health services, and audiology services. This program began to cover non-surgical audiology services January 1, 2005. In FY 2005 participating schools received a total of \$58,108,665 in Medicaid Federal Financial Participation Funds, which is an increase of \$27,471,865, or approximately 90%, above FY 2004. The Therapy Codes portion of the program, including the new audiology services, was responsible for \$12.8 million in payments. The total reimbursement represents approximately 70% of the total cost of the services, while the remaining monies were provided by the participating schools.

Department of Corrections - Report on Inmate Utility Fees - Pursuant to A.R.S. § 31-239, the Department of Corrections shall annually report on monies collected from inmates who use electrical appliances. The report shall also include information on the expenditure of any monies collected. Statute requires the department to charge a fee, not to exceed \$2.00 per month, to inmates possessing at least one electrical appliance. For FY 2005, the department assessed a monthly utility fee of \$1.00 and collected \$174,042. This collection represents a 12.9% increase above FY 2004 (\$154,134 collected), which the department attributes to population growth during FY 2005. The department reports that the

monies collected were utilized to reduce electrical expenditures at the institutions from which deductions were collected. Total inmate utility collections represent 2% of ADC's total utility expenditures of \$9,016,273 in FY 2005.

Department of Education - Budget Status Report - Pursuant to A.R.S. § 35-131(D) and a footnote in the FY 2006 General Appropriation Act, the Arizona Department of Education (ADE) recently provided an update regarding its budget status for formula-funded programs for FY 2006. In that report, ADE estimates that it will experience a \$48 million Basic State Aid shortfall for FY 2006. This estimate is based mostly on reported FY 2005 Average Daily Membership (ADM) counts for school districts, since FY 2006 ADM counts are not yet available. Basic State Aid costs in FY 2006 will depend on both FY 2005 and FY 2006 ADM counts, since that funding is based on current year counts for growing districts and prior year counts for non-growing ones. ADE's \$48 million estimate therefore is subject to considerable change once FY 2006 ADM counts become available. This is not expected to occur until at least February 2006.

The JLBC Staff currently estimates a Basic State Aid shortfall of roughly \$33 million for FY 2006. This assumes that the 3.5% ADM growth rate currently reported for FY 2005 is "final" and that a 3.2% growth rate (the 15-year average) will be observed for FY 2006. The JLBC Staff currently assumes a slightly lower (3.2% versus 3.5%) growth rate for FY 2006 because of a cap on Basic State Aid funding to Joint Technology Education Districts (JTEDs) for FY 2006. JTEDs accounted for about 0.3% of the 3.5% statewide ADM growth currently reported for FY 2005. The JLBC Staff shortfall estimate, like the ADE estimate, is subject to considerable change once ADM counts for FY 2006 become available, or if reported FY 2005 counts or other related data are revised substantially in the future.

Department of Environmental Quality – Report on Water Quality Assurance Revolving Fund for FY 2005 - Pursuant to a General Appropriation Act footnote, the Arizona Department of Environmental Quality (ADEQ) is required to report annually by September 1 to the JLBC on progress of activities in the Water Quality Assurance Revolving Fund (WQARF) Program, including emergency response, priority site remediation, cost recovery, revenues and expenditures, and other WQARF-funded program activity.

The WQARF Program is similar to the federal Superfund program in that it is designed to monitor, contain, and remediate contaminated groundwater at specified sites. Program expenditures cover cleanups at contaminated sites, water monitoring, site investigations, emergency response activities, responsible party searches, litigation costs, and annual transfers to the Department of Water Resources, the Department of Health Services, and the ADEQ Voluntary Remediation Fund.

WQARF is funded in part from an annual transfer of \$15,000,000 from the Corporate Income Tax (CIT), as

stipulated in A.R.S. § 49-282. In addition, WQARF generates other revenue from license and registration fees. A.R.S. § 49-282 directs the State Treasurer to adjust the CIT transfer so that, when combined with certain other fee and license revenue, the WQARF program is guaranteed to receive \$18,000,000 annually. Some types of revenue, including cost recovery collections and interest earnings, are not included in this calculation. Therefore, actual program revenues can exceed \$18,000,000 in a year depending on how much is deposited from these other sources.

According to the report, the FY 2005 revenues totaled \$14,265,700. Revenues for the year did not reach the guaranteed level of \$18,000,000 due to Laws 2004, Chapter 280, which suspended the \$15,000,000 transfer in FY 2005 in favor of a \$10,000,000 transfer. When added to the prior year fund balance, the new revenue brought total resources available for expenditure to \$19,128,700. Based on the report, actual expenditures for the year were \$13,778,300. Unexpended funds at the end of FY 2005 totaled \$5,350,400.

The WQARF Program maintains a list of contaminated sites, called the Registry. According to the report, at the end of FY 2005 there were 35 sites on the WQARF Registry, after the addition of a new site and the consolidation of two sites into one. There is no information available on the expected duration or remediation costs for these sites.

The report includes information about cost recovery and cleanup activities at both the site and program level of detail. The following is a breakdown of cleanup results in FY 2005:

- 13.4 billion gallons of groundwater treated
- 28,573 pounds of volatile organic substances removed from the environment
- 3.3 million pounds of metal removed from the environment
- 248.2 tons of contaminated soil removed

The department recoups cleanup expenses from responsible parties through cost recovery efforts termed "cost recovery packages." In FY 2005 more cost recovery packages were closed than were opened, resulting in a net decrease in the number of outstanding cost recovery packages. However, the dollar amount outstanding at the end of FY 2005 increased over the prior year, even with the decline in the number of outstanding packages.

Governor's Office of Strategic Planning and Budgeting - Progress Report on Federal Funds Central Clearinghouse Study - Pursuant to a provision in the Budget Procedures Budget Reconciliation Bill (Laws 2005, Chapter 331, Section 17), the Governor's Office of Strategic Planning and Budgeting (OSPB) has provided a progress report to the Committee on its study of a federal funds clearinghouse. OSPB identifies 5 activities in its scope of work for the final report due to the President of the Senate, Speaker of the House of Representatives, and the Governor on December 1, 2005:

1. Define the purpose of the clearinghouse

2. Conduct an inventory of resources that are currently available
3. Evaluate the inventory for appropriateness, completeness, and usefulness
4. Evaluate current information flows
5. Make recommendations

The progress report notes that the Department of Administration compiles a Schedule of Expenditures of Federal Awards and the Auditor General's annual Single Audit report includes audited expenditure totals for federal funds and whether or not they were spent properly. The progress report also notes that Grants.gov, a federally-run Internet site, coordinates competitive grant opportunities. OSPB says they will conduct a focus group "with a few state agencies that are power users of federal fund information such as the Department of Economic Security, the Department of Health Services, the Department of Environmental Quality and the Department of Transportation" to determine whether the information listed above meets their needs.

There are at least 2 possible concerns related to OSPB's plans:

1. The list of information sources do not include information on available monies, fund/grant balances, or expenditure detail within agencies. In addition, Grants.gov is explicitly designed for information on competitive grants, thereby omitting the vast majority of funds available to the state through formula grants.
2. The list of stakeholders could potentially be too narrow as smaller state agencies, legislative users, and members of the public also are interested in federal funds clearinghouse information; by restricting the focus group to large state agencies who currently have the most experience with federal funds, the report may not recognize the needs of other users of federal fund information.

Department of Health Services - Report on AIDS Drug Assistance Program Expenditures - The Department of Health Services submitted a report on the expenditures from its AIDS Drug Assistance Program in FY 2005 pursuant to Executive Orders 97-10 and 98-3. According to the report, the program served an average of 866 clients a month in FY 2005. This is an increase of 105 clients, or 13.8%, from FY 2004 levels. The average money spent per participant in FY 2005 was \$937.76, up 11.9% from FY 2004 levels.

In total, the program spent \$9,736,300 on medications in FY 2005. This includes \$8,736,300 from Federal Funds and \$1,000,000 in General Fund monies. The program expended \$7,644,300 in FY 2004.

Arizona Board of Regents - Report on Technology and Research Initiative Fund (Proposition 301) - A.R.S. § 15-1648 mandates an Arizona Board of Regents (ABOR) report on the Technology and Research Initiative Fund (TRIF). Proposition 301, enacted into law by voters during the November 2000 General Election, established TRIF to support public higher

education and research initiatives in emerging technologies. Proposition 301 funded this mandate by increasing the state Transaction Privilege (Sales) Tax rate from 5% to 5.6%. From the additional 0.6% collected, all annual debt service on outstanding state school improvement revenue bonds is paid. Then, 12% of whatever monies remain are deposited in TRIF and continuously appropriated.

In FY 2006 ABOR estimates \$55.3 million in Proposition 301 revenues, a 2.9% increase over FY 2005 inflows. Furthermore, TRIF had a FY 2005 ending balance of \$22.7 million, which has carried over to FY 2006. Of the total \$78 million that ABOR anticipates in the fund, the ABOR central office will receive roughly \$2.1 million, Arizona State University will receive approximately \$28.9 million, Northern Arizona University will receive roughly \$21 million, and University of Arizona will receive approximately \$26.1 million.

ABOR granted \$53.2 million from TRIF during FY 2005, representing 69.7% of that fiscal year's revenues and balances forward, to various new technology research, development, and transfer projects in the state university system. ABOR budget guidelines call for the full expenditure of the \$22.7 million FY 2005 ending balance by December 31, 2005. Therefore, ABOR budgeted \$78 million in expenditures for FY 2006.

The FY 2005 General Appropriation Act (Laws 2004, Chapter 275) set aside \$3.6 million from TRIF, and \$3.6 million was used, for lease-purchase payments on certificates of participation issued for Arizona State University's East and West campuses. Statute permits ABOR to use up to an additional 20% of annual TRIF expenditures for other capital projects, including debt service related to new economy initiatives. In FY 2005, the university system used an additional \$4.1 million on capital projects, representing 7.7% of other annual TRIF outlays.

Department of Revenue - Report on Tobacco Tax Enforcement Revenue Collections - The Department of Revenue (DOR) received an additional \$900,000 from the General Fund and 14 FTE Positions in the FY 2005 General Appropriation Act for tobacco tax enforcement. DOR estimated that the 14 FTE Positions would increase annual revenue by \$1.8 million. In June 2004 the Appropriations Chairmen asked DOR to provide an interim progress report with regard to their revenue collection efforts by March 1, 2005 and a final report by July 31, 2005. The reports were to include the actual increased revenue collected as a result of the 14 new FTE Positions, as well as the actual revenue collected due to the 7 base budget FTE Positions.

DOR reports that they filled and trained the 14 new FTE Positions in August and September 2004, and that 5 of the 7 base budget FTE Positions are filled. They did not separate out the increased revenue attributed to the 14 new FTE Positions from the revenue collected due to the 7 base budget FTE Positions. DOR reports \$1,519,100 of combined tobacco

tax enforcement revenue in FY 2005, which includes both the base budget FTE Positions and new FTE Positions. The \$1,519,100 includes \$53,000 to the General Fund from penalties on seized tobacco products, \$1,076,500 to the Tobacco Tax and Health Care Fund from tobacco stamps sold to bring products into compliance, and \$389,600 paid on \$27.8 million of tobacco tax audit assessments. The \$27.8 million of audit assessments in FY 2005 will most likely be reduced on appeal when the taxpayers provide additional information not available at the time of the audit. Collection will occur in future fiscal years. The following table shows the results for FY 2005 compared to FY 2004.

Summary of Tobacco Tax Enforcement Revenue in FY 2005		
	FY 2004	FY 2005
Penalties to General Fund	\$ 0	\$53,000
Tobacco Stamps to Tobacco		
Tax and Health Care Fund	54,000	1,076,500
Audit Payments ^{1/}	<u>255,000</u>	<u>389,600</u> ^{2/}
Total	\$ 309,000	\$1,519,100

^{1/} Approximately 13.56% to the General Fund, 1.69% to the Corrections Fund, and 84.75% to the Tobacco Tax and Health Care Fund.
^{2/} Audit assessments totaled \$27.8 million in FY 2005.

In addition, DOR reports that overall tobacco tax collections increased \$10.7 million in FY 2005 due to increased public awareness of enforcement activities, from \$275.1 million in FY 2004 to \$285.8 million in FY 2005. The \$285.8 million in FY 2005 includes the \$389,600 of audit payments, but does not include the \$53,000 of penalties to the General Fund. DOR has limited data on cigarette purchases by Arizona residents over the Internet. DOR reports that since about March 2005 national credit card companies no longer handle transactions with Internet tobacco sellers. DOR has not yet seen a decline in Internet tobacco sales, but expects that a decline should occur if credit card sales are limited.

Supreme Court - Report on Current and Future Automation Projects - Pursuant to a footnote in the General Appropriation Act, the Administrative Office of the Courts (AOC) is required to report annually to the JLBC on current and future automation projects coordinated by the AOC. The report is to include a list of court automation projects that receive state monies in the current fiscal year, as well as projects planned for the next 2 fiscal years. In addition, the report is to provide a description of each project as well as the funding source, estimated cost for each fiscal year, the number of Full-time Equivalent (FTE) Positions, the entities involved, and the goals and anticipated results for each automation project. The AOC submitted the report for FY 2006 on September 6, 2005.

In their report, the AOC categorizes court automation projects into the following 3 tiers: 1) Shared Infrastructure; 2) Program Support & Maintenance; and 3) New Projects. Shared infrastructure expenditures would include services such as email, database administration, information access, security and software deployment. Program support & maintenance includes activities associated with supporting

automation initiatives required for juvenile justice, adult probation, trial courts, appellate courts and general services. New projects represent the development of systems to enhance court capability and productivity. The AOC estimates total state expenditures for the 3 project tiers in FY 2006 to be approximately \$12.7 million. Of this amount, approximately \$6.0 million (47%) will be spent on shared infrastructure costs; \$3.9 million (31%) will be spent on program support & maintenance; and \$2.8 million (22%) will be spent on 9 new projects. Of the 9 new projects anticipated to begin in FY 2006, some of the larger projects in terms of cost include: a new case management system for all Superior Courts (\$658,700), an enhancement to the court management application (\$605,000), updating and enhancing the JOLTS system (\$592,200) and the deployment of the limited jurisdiction case management system (\$443,200). In addition to state funds, each of these project tiers may also include local funding sources as well as Federal Funds. Local courts assume a portion of the implementation and operating costs for new applications and technologies. The AOC report identifies state funding for all 3 tiers but does not provide an estimate of the level of funding received from other governmental entities.

In addition, the report includes a list of current court automation projects as well as projects planned for the next 2 fiscal years. However, the projects listed in the report are limited to those projects categorized as “New Projects”, or the third tier identified by the AOC. The report therefore identifies how the \$2.8 million associated with New Projects will be spent, but does not address the remaining \$9.9 million in automation expenses identified by the AOC. Additionally, the AOC anticipates costs relating to “New Projects” in FY 2007 and FY 2008 to be \$4.5 million and \$3.2 million, respectively. FTE Positions required to complete all automation projects categorized as “New Projects” is estimated to be 19.9.

Arizona Department of Transportation – Report on Motor Vehicle Division Wait Times - FY 2005 Summary - Laws 2003, Chapter 104, requires the Arizona Department of Transportation to report to the Legislature annually on customer wait times from door to counter in Motor Vehicle Division (MVD) field offices. For FY 2005, total customer time averaged 29.8 minutes, including 21.6 minutes of customer wait time and 8.2 minutes of transaction time. It has been reported anecdotally that some people are having to wait outside MVD offices for up to 45 minutes before they can get an automated ticket which starts the wait time clock. The following table compares the results to those of previous fiscal years.

Customer wait time increased 43% in FY 2005, from 15.1 minutes in FY 2004 to 21.6 minutes in FY 2005, even though the number of customers decreased 6.1% in FY 2005, from 4.6 million customers in FY 2004 to 4.3 million in FY 2005. The 4.3 million customers in FY 2005 was the lowest number of customers in the past 5 fiscal years for which we have data.

Average Customer Minutes Spent in Motor Vehicle Division Field Offices

<u>Fiscal Year</u>	<u>Wait</u>	<u>Minutes</u> <u>Transaction</u>	<u>Total</u>	<u>Customers</u>	<u>Transactions</u>	<u>Counter</u> <u>Clerks</u> ^{1/}
FY 1999	29.1	^{2/}	^{2/}	---	---	---
FY 2000	14.9	^{2/}	^{2/}	---	---	---
FY 2001	15.4	8.3	23.7	4,682,300	---	---
FY 2002	18.4	8.6	27.0	4,884,400	---	---
FY 2003	14.2	8.7	22.9	4,728,400	5,744,000	866
FY 2004	15.1	7.9	23.0	4,615,500	5,777,200	756
FY 2005	21.6	8.2	29.8	4,333,300	5,685,000	725

^{1/} Motor vehicle customer service representatives (MVCSR) and motor vehicle customer service associates (MVCSA) who man MVD office service counter windows. MVCSA's are underfills for MVCSR's.

^{2/} Prior to current reporting.

ADOT reports that the number of clerks who staff MVD office service counter windows decreased (4.1)% in FY 2005, from 756 in FY 2004 to 725 in FY 2005. The number of clerks decreased a total of (16.3)% in the past 2 years, from 866 in FY 2003 to 725 in FY 2005. The decrease in the number of clerks may account for the increase in customer wait times. It is unclear why ADOT decreased the number of clerks or where they spent the money that was saved. MVD had no budget reductions in either FY 2004 or FY 2005 to account for the staffing decrease.

with \$7.6 million in federal matching dollars) in order to raise the rates of providers contracting with the Division of Developmental Disabilities to 97.61% of FY 2005 market rates. DES implementation plan fulfills this requirement which was included as a footnote in the General Appropriation Act.

Department of Public Safety – Quarterly Review of the Arizona Public Safety Communication Advisory Commission (PSCC) – The Committee received the Department of Public Safety's (DPS) quarterly report detailing FY 2005 fourth quarter expenditures and progress for the statewide interoperability design project. During the fourth quarter, the agency expended approximately \$160,900, with the majority spent on personal costs and equipment. For the entire fiscal year, the agency hired 5 of 9 positions and expended approximately \$519,400 of their \$5 million appropriation. As a result, \$1,480,600 of the agency's \$2 million lapsing appropriation will revert back to the General Fund. The agency will retain, however, \$3 million in non-lapsing monies for its interoperability project.

The PSCC provided an updated timeline with specific goals and objectives for completion during FY 2006. Based on the revised timeline, the PSCC will begin to identify potential technical solutions for interoperability in mid FY 2006 (originally scheduled for early FY 2007), leading to the implementation of a pilot project in FY 2008 (previously not included in timeline). The PSCC anticipates fostering a full deployment plan in the beginning of FY 2009, consistent with the estimated completion date in the original timeline. Previously not indicated in the original timeline, the PSCC's estimates statewide interoperability would be achieved at the beginning of FY 2014 if funding is available.

The Committee requested that the agency's next quarterly report include an explanation regarding accomplishments that directly relate to the updated timeline, as well as information on the extent of PSCC's involvement with the Department of Military Affairs (DEMA) "short term" interoperability solution, and how DEMA's plans integrate with the PSCC's "permanent" interoperability solution.

JLBC MEETING

At its September 1st meeting, the Joint Legislative Budget Committee considered the following issues:

Arizona Health Care Cost Containment System – Review of Capitation Rate Change – The Committee gave a favorable review to the Arizona Health Care Cost Containment System (AHCCCS) Acute Care and Long Term Care System rates with the stipulation that the review did not constitute an endorsement of a supplemental request. JLBC Staff has estimated that the capitation rate changes will create a \$14 million General Fund and \$14 million County Match shortfall in the FY 2006 AHCCCS budget. The main driver of the increase is ALTCS capitation rate growth, which increased 14.3% over FY 2005 levels - the budgeted cap rate growth for the ALTCS system in FY 2006 was 5.0%. The actual shortfall will depend on enrollment growth in the program for the current fiscal year. Current acute care enrollment in running near budgeted projections while long-term care caseloads are slightly below forecast.

Department of Economic Security – Review of Proposed Implementation of Developmental Disabilities Provider Rate Increase – The Committee gave a favorable review to the Department of Economic Security's (DES) proposed implementation plan for distributing a developmental disabilities (DD) provider rate increase totaling approximately \$6 million General Fund (GF) and \$13.6 million Total Funds (TF). The legislature added \$6 million in FY 2006 (along

Arizona Department of Administration – Review of Emergency Telecommunication Services Revolving Fund (ETSF) Expenditure Plan – The Committee favorably reviewed the \$13.4 million wireless portion of ADOA's ETSF expenditure plan with the provision that the agency report back by April 1, 2006 on the implementation costs of Phase I and Phase II development as well as the ongoing costs and revenue sustainability assuming full deployment.

Phase I requires local public safety answering facilities to be able to identify the phone number of, and the nearest cellular tower to the caller as well as relay the call to the nearest emergency response center. Phase II requires answering facilities to be able to identify the exact location of the caller. By October 2005 Maricopa County will finish their Phase II deployment and will join Pima County as the only other county in the state with Phase II deployment. With the completion of Pima County and Maricopa Region, 80% of the access lines in Arizona will be Phase II compliant.

Attorney General – Review of Uncollectible Debts – The Committee gave a favorable review to the Attorney General's (AG) request to assign as uncollectible \$10.7 million in debts referred to state agencies to the AG for collection. The AG has a Collection Enforcement Unit that functions as a collections agency for past due debt owed to state agencies, boards and commissions. The unit returns 65% of the collected debt to client agencies and retains 35% for operational costs. The collection unit has determined that \$10.7 million owed to the state is uncollectible, due to the following:

- \$3.6 million due to defunct corporations and limited liability companies;
- \$2.6 million due to insufficient debtor resources;
- \$1.7 million due to settlement;
- \$1 million due to bankruptcy;
- \$0.9 million due to inability to locate the debtor.

The vast majority (81%) of the \$10.4 million in uncollectible debt is owed to 4 agencies – Registrar of Contractors (\$3.3 million), Arizona Department of Revenue (\$2.8 million), the Industrial Commission (\$2.1 million) and the Motor Vehicle Division (\$400,000). Another \$2 million is owed to 34 other state agencies.

Arizona Commission on the Arts – Review of the Arizona Arts Endowment Fund and Private Contributions – The Committee gave a favorable review to the Arizona Commission on the Arts' report on private monies that are donated in conjunction with public dollars from the Arizona Arts Endowment Fund. According to the report, \$5.2 million in private donations were received in FY 2004, up from \$2 million the prior fiscal year. The Commission attributes the increase to increased communication with the art's community as well as an upturn in the state's economy.

The annual General Fund deposit of \$2 million to the Arts Endowment Fund is required by statute. To date, \$13 million

has been deposited in the fund. The final statutory deposit to the fund is in FY 2009, at which time the fund will have accrued \$19 million in General Fund contributions. Representative Pearce raised the possibility that the Legislature may want to consider funding the remaining \$x million in endowment deposits in the upcoming budget given the potential availability of one-time monies.

JCCR MEETING

At its September 1 meeting, the Joint Committee on Capital Review considered the following issues:

ADOA Building Renewal Allocation Plan – The Committee gave a favorable review to \$2,189,000 of the department's FY 2006 Building Renewal Allocation Plan. The review included 10 projects, an emergency contingency, and project management. Including this and prior recommendations, \$3,164,000 of the appropriated \$3,400,000 has been reviewed, leaving \$236,000 from the Capital Outlay Stabilization Fund to be reviewed. The review included provisions related to reporting of transfers between projects, and allocations from the emergency contingency.

ADOA PLTO I Refinancing and Renegotiation – The Committee gave a favorable review to the refinancing and renegotiation of an \$80,270,000 private least-to-own agreement with the stipulations that ADOA report back to the Committee on the interest rate, debt service schedule, and actual costs and savings of the refinanced PLTO, and that ADOA report back detail concerning the potential for additional interest rate savings from other debt financed capital projects. Because of interest rate savings, scheduled debt service payments on the FY 2000 PLTO can be reduced by approximately \$12,082,000 over the remaining 22 year period. This equates to a net present value of \$3,400,000 in savings.

ADOA Energy Savings Performance Contract – The Committee held the review of the Energy Savings Performance Contract pending progress on the development of the contract.

DJC Suicide Prevention Renovations – The Committee gave a favorable review to the use of \$1,094,500 from the department's FY 2006 operating budget for suicide prevention renovations with the provision that DJC report back about whether the Department of Justice believes additional renovations are required or whether the renovations satisfy the conditions of the federal audit.

ADOT Building Renewal Allocation Plan – The Committee gave a favorable review to the \$3,702,900 Building Renewal allocation plan, which includes \$3,627,100 from the State Highway Fund for 223 projects and contingencies, and \$75,800 from the State Aviation Fund for 2 projects at the Grand Canyon Airport. The review included provisions related to reporting of transfers between projects, and allocations from the contingency amount.

ASU Academic Renovations and Deferred Maintenance –

The Committee held on reconsidering the \$3 million elevator code upgrade component of this project to allow the Industrial Commission to appear at the September 28, 2005 meeting, and requested ASU provide additional detail on the required upgrades and a breakdown of the \$150,000 per elevator cost estimate.

The Committee gave a favorable review to the remaining components of the Academic Renovations and Deferred Maintenance plan. The total project is financed with a \$10 million revenue bond issuance which was originally reviewed in June 2004, but did not include the elevator component at that time. The review included the standard university provisions noting that a favorable review did not constitute endorsement of General Fund appropriations for debt service or operating costs and requiring reporting on the use of contingency allocations.,

NAU Parking Structure – The Committee gave a favorable review to the Parking Structure Project which will be financed with a \$15 million revenue bond issuance to be repaid over a 35-year period. Annual debt service of \$935,000 will be paid from parking revenues. The project consists of a 900-car, 4-level structure located on an existing parking lot at the central campus. The review included the standard university provisions noting that a favorable review did not constitute endorsement of General Fund appropriations for debt service or operating costs and requiring reporting on the use of contingency allocations.